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FDI IN RETAIL SECTOR IN INDIA – A BOON OR BANE

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ABSTRACT

In this dynamic environment of today when winds of change are sweeping across the globe the international community is ready to integrate itself with the Indian economy. The govt. encouraged by the outcome of economic policy of 1991 in India, has proposed retail reforms mainly as 100% FDI in the retail sector in India. It may benefit by bringing in investment into development of complete backend infra-structure like cold chain & supply chain enhancing efficiency of food chain, as well as eliminating the exploitative system of middlemen which bleeds the farmers and squeezes the consumers; but may not increase purchasing power of people and provide more placements to repair our sick economy The current paper scrutinizes the relationship of Foreign Direct Investments with the Indian Retail Sector. However, the Indian government must take timely and prudent actions to contain this revolution & safeguard the health of the Indian retail sector to stabilize themselves against competition from the giant players of the global economy in the present state of slowing growth, stubborn inflation & widening fiscal deficit in the country. Darwin's theory of "survival of the fittest" has become more relevant to business world.

KEY WORDS*: Global Business Olympics, Giant, Cold chain, supply chain, cash flow, fiscal deficit economy, economic policy, employment, FDI, multi brand retail*

In this dynamic environment of today when winds of change are sweeping across the world the countries are bent upon proving their potential in global business Olympics & exploring opportunities for multifaceted growth. India, a country with the second largest **economic growth** rate in the world, has the major advantage in its vastness and is growing bigger day by day. It is no more a country of snake charmers, elephants, bullock carts, roads packed with tongas & rickshaws and creepy local hats or weekly markets. Most of the urban cities present a contrasting view of the needy face of India along with high power and glamour dragged in via an accelerating economic growth and globalization as huge malls and international brands have also squeezed their way in too. This potentially huge market shift has been brought about by a change in the retail sector; thanks to Foreign Direct Investments (FDI).

Flabbergasted by the growth potential of India the international community is ready to integrate itself with the Indian economy. To comprehend completely this drastic change in the panorama, it is important to understand the statistics that have led to a heightened interest of foreigners in India's consumers. The Indian economy is one of the fasted growing economies of the world. In fact, it is anticipated to be equivalent to 60% of USA's by the year 2035 and may become the third largest economy of the world. Since 10% of this booming economy's GDP is provided by the Indian Retail Sector, it comes as no surprise that both foreign investors and the Indian Government seem interested in banking on it. And it seems only logical for both parties to involve in mutual understanding so the latter can work to safeguard India's interests. However, the former cannot be expected to share this goal but the extent of FDI & their role in revolutionizing the Indian Retail Sector becomes questionable. Should the Indian Government allow foreign investors to completely change the market's current landscape or it should try to retain that power as it has since independence is the hotly debated issue.

Retailing in India is gradually inching its way to becoming the next boom industry. The whole concept of shopping has altered in terms of format and consumer buying behavior, ushering in a revolution in shopping. In sharp contrast with traditional retailing modern retail has entered Indian markets as sprawling shopping centers, multi-storied malls and huge complexes offer shopping, entertainment and food all under one roof. Retail marketing is one of the pillars of our economy and accounts for about 15% of its GDP & is estimated to be US$ 450 billion, one of the top five retail markets in the world by economic value In order to appeal to all classes of the society, retail stores identify with different lifestyles. In a sense, this trend is already visible with the emergence of stores with an essentially `value for money' image. The attractiveness of the other stores actually appeals to the existing affluent class as well as those who aspire for to be part of this class. Hence, we can assume that the retailing revolution is emerging along the lines of the economic evolution of society as well as steady economic growth in India.

The most important element of the present paper is to analyze Foreign Direct Investments and its relationship with economy. To an average Indian, FDI represent the ostentatious part of India; they stand for air conditioned malls, renewed shopping experience and availability of international brands in India etc. In short, they are responsible for providing small but effective shopping havens to Indian consumers. However, a trained mind can reduce it to more important effects. Essentially, the term FDI according to investopedia means *"An investment abroad, usually where the company is invested in is controlled by the foreign corporation."* Therefore, to a strong economy it is more important to make an investment; investors are responsible for strengthening their country's economy by acquiring assets that can generate a cash flow into it. On the other hand investments into a country allow cash to flow out of it into the investor's economy. As long as the cash flow is balanced or the flow in is greater than the flow out, there is nothing to worry about. However for a developing economy such as that of India, higher FDI risk a negative a balance since its players cannot match the potential of the highly stable investors outside India. Although these are mere speculations, they provide an insight into the two perspectives that surround the Retail Sector of India today. It must also be noted that these are two extremes of the picture, the key lies in reaching to a common point where India would be able to gain more than it loses – a revolutionized Indian Retail Sector as a result of FDI and other equally important factors such as increased urbanization, credit availability, improvement in infrastructure etc. It means that although FDI can bring a huge change in India's retail sector, India needs to think broader and keep its entire economy in mind.

The question is why are foreign investors so keen on throwing away huge sums to a substantially poor nation and why is India so reluctant to divert from an inherently "closed economy". India has one of the largest consumer markets of the world and a huge population that likes to spend irrespective of its financial constraints. Moreover, compared to counterparts, India's blossoming economy has remained alien to the foreign touch. And this void of investments in the retail sector makes India so appealing to the entire world. Today the foreign investors are like filthy rich kids with nowhere to spend their money since almost every profitable economy has been milked out; so India's retail sector is nothing short of a casino at the hands of these billionaires – they can stand the test of time and survive possible hits at their own expenses.

Furthermore, the second question can be answered by an analysis of the Indian Retail Sector. In 2004, the Delhi High court defined retailing as "an act of making a sale to the final consumer". According to this definition, the retail sector of India is prominently divided into organized and unorganized retail trade shops, with the latter making up 97% of it. The unorganized retail sector is largely composed of local kirana shops, owner manned general stores, pan/beedi shops, pavement vendors, convenient stores etc.; it is the kind of retailing an average Indian can relate to as it comes naturally to them hence it is the largest source of self-employment there. On the other hand, organized retailing refers to corporate-backed hypermarkets, retail chains and privately owned large businesses which are only allowed to retail under a license and are liable to huge sales and income taxes. The growth of retailing in India under the organized sector is such that in spite of owning a meager 2-3% of the sector, it is responsible for trade worth 180-394 (US$ billion), compared to 360 of China's. Statistically speaking, retail in India is growing at a rate of 46.64% annually.

So where does FDI come into the picture? India has recently shifted from a closed economy and is now looking to expand organized retailing to 10% of the Indian Retail Sector. To make that goal possible, it needs to rely on providing competition to the locals by bringing in foreign investors. India's current economic policy encourages large Indian players like Reliance, Bharti AirTel, ITC to make significant investments in its market, allowing foreign investors only 51% direct investment opportunities. Now, India offers three retailing formats to all: Single brand Retail shops, Multi brand Retail shops and Convergence Retail outlets. According to the latest economic policies, India allows up to 51% FDI in Single Brand Retail and up to 100% in Convergence Retail Outlets for wholesale trading and export. The multi brand retail format is off limits to the foreign investors. Consequently, they are forced to succumb to breaking and entering via either of the following routes:

1. **Franchise Agreements**: Authority to approve lies with Reserve Bank of India
2. **Cash and Carry Wholesale Trading**: it is not retailing in essence but leads to it ultimately and is expected to bring in huge sums of money based on the high investments required get it started
3. **Strategic Licensing Agreements**: Foreign players can enter into an agreement with the locals and license them to distribute their products/ services
4. **Manufacturing and Wholly Owned Subsidiaries**: Foreign brands can manufacture in India and thereby be treated as “Indian” companies.

SO HOW IS THE FDI LIKELY TO AFFECT THE INDIAN RETAIL SECTOR? India has just glimpsed a view of modern retailing in the form of high rise malls, super markets and a luxurious shopping experience. It can account for much more and revolutionize the Indian Retail Sector, given a few more years. Increased FDI will result in higher global integration and greater chances of traditional retailers to access the international community. In addition, it can account for a higher standard of living by bringing in foreign (high-quality) items of luxury that were previously banned in India. As a result, the high class of India (the ones that can afford foreign luxury) won’t have to resort to importing these goods and generating a cash outflow. This can in turn support the Indian economy by controlling corruption, cash out flow and encouraging high priority items to be manufactured within India. This provides an excellent opportunity for the growth of the Indian Industrial Sector besides retailing. It can also be interpreted as an incentive for traditional retailers to step up their game and look for non-orthodox means of attracting good-will to keep in competition with the foreign players. However, there's an ugly side to this dream that most investors are relying on. In changing the landscape of the Indian market, the foreign brands are eventually going to replace traditional Indian retailing. While it sounds good in theory (who would want noisy rickshaws, unhygienic food and a suffocating market experience), this is what the locals rely on. This form of retailing is the bread and butter of millions of people in India. Though FDI will still be revolutionizing the Indian Retail Sector, it will be at the cost of the Indians themselves.

The problem arises because FDI are prone to affecting the most sensitive issue to Indian economy: employment. This form of modern retailing is expected to occur at a cost of heavy labor displacement. And till a time India is creating jobs for its people, this can be nothing but disastrous. The Indian economy is heavily dependent on traditional retailing to create livelihood opportunities. To understand this better, let's take the much popular Tesco issue into account. Tesco, being a multi brand retailer, is denied admission in India. Hypothetically - if India allows it to make a direct investment, it is bound to play big. And will soon open up supermarkets in at least 35 prime locations (cities with population greater than a million). These markets would sell a complete range of products including luxuries and necessities.

Share of retailing in employment across different countries

Country	Employment (%)
India	8
USA	16
Poland	12
Brazil	15
China	7

Source: Presentation to FICCI by Alan Rosling (Chairman, Jardine Matheson Group): "International Experience on Policy Issues."

The new middlemen the government welcomes have no regard for village and community. Maximizing their own profit is their sole concern. As the number of buyers shrinks to a handful of corporations, farmers will have fewer places to sell their produce. What kind of bargaining power

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will they have against these mega-middlemen, some of whose worth would place them, if treated as nations, amongst the top ten economies in the world? The “contracts” in the new dispensation will reflect that power equation. The National Commission for Farmers headed by Dr. M.S. Swaminathan had observed that rushing into contract farming without ensuring the needs, safety and bargaining power of the farmer would result in major displacement in the sector.

And because it is a giant in the international community, it can afford to make huge sales at low costs, most probably lower than the average Indian retailers. So even if it takes a while for the middle and lower classes to adjust to the idea, why wouldn’t they want to go out of their way to shop at a place that offers comfort, convenience and low prices? As good as that sounds for normal customers, it involves traditional retailers going out of business; they wouldn't be able to compete and it would trigger a greater lapse in the employment sector, creating bigger problems for the Indian economy.

By allowing FDI in retail, India may soon be looking at a modern version of the “farangi (foreign) take over on Indian economy”. There is no doubt that investments of such huge magnitude and potential can revolutionize the Indian Retail Sector, it must be ascertained that the change serves India more than the investors. India has to choose between customer satisfaction and employment opportunities. Given the circumstances, it is evident that India will go for the latter and delay a shift in its market to a time when the foreign investors can't hurt the livelihood of the traditional retailers and the economy is adequately prepared for implementation of FDI in Retail policy.

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